

# **Railroad Unemployment Insurance System**

**Annual Report Required by Section 7105  
of the Technical and Miscellaneous  
Revenue Act of 1988**



**U.S. Railroad Retirement Board  
Bureau of the Actuary  
June 2000**

## ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

### I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes which might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 2000.

### II. Recent Developments

The Railroad Unemployment Insurance Amendments Act of 1996 (Public Law 104-251), enacted on October 9, 1996, increased the maximum daily benefit rate, revised the formula for indexing future benefit rates, and reduced the initial waiting period. The amendments also apply an earnings test to some unemployment claims and reduce the maximum number of weeks in extended benefit periods for long service employees. Following passage, the maximum daily benefit applicable to unemployment and sickness payments increased to \$42 from \$36. The maximum daily benefit increased to \$46 beginning July 1, 1999, and will increase to \$48 beginning July 1, 2000, and \$50 beginning July 1, 2001. The monthly tax base increased from \$925 in calendar year 1998 to \$970 in 1999, and to \$1,005 in 2000, based on increases in the railroad retirement tier I creditable base.

A 1.5 percent surcharge went into effect in calendar year 1998 and continued in calendar year 1999. There is no surcharge in calendar year 2000. However, this year's report predicts a surcharge in calendar years 2001 through 2004.

### III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980's, can put the system into debt. Conversely, significant cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thus adjusting the overall account balance to an appropriate level.

The three employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Social Security Administration's March 2000 Trustees Report, intermediate set of assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base and daily benefit rate assumptions.

#### IV. Results

Projections were made for the various components of income and outgo under each employment assumption for the 11 fiscal years 2000-2010. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables, one for each employment projection A, B, and C. The tables show (1) contributions, excluding the portion allocated to the Administration Fund, (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

Under all assumptions, no new loans are needed to finance benefit payments during the projection period. The experience-based contribution rates generate sufficient funds to respond to the different levels and patterns of employment decline assumed.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the taxable base. If the balance exceeds an indexed \$250 million, contributions are reduced by a pooled credit. If the balance falls below an indexed \$100 million, contributions are increased by a surcharge.

The June 30, 1996 balance<sup>1</sup> was \$136 million. By June 30, 1997, the balance had dropped to \$83 million, below the threshold to trigger a 1.5 percent surcharge for calendar year 1998. The June 30, 1998, balance of \$81.5 million was also below the trigger threshold, and the 1.5 percent surcharge remained in effect for calendar year 1999. By June 30, 1999, the balance had risen to \$118.7 million, and no surcharge is in effect in calendar year 2000.

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<sup>1</sup> The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

The Account balance is expected to be slightly below the indexed \$100 million threshold in June of 2000 under each employment assumption<sup>2</sup>. Consequently, a 1.5 percent surcharge is expected in calendar year 2001. The balance remains below the indexed \$100 million threshold through June 2003 under all assumptions, resulting in surcharges of 1.5 percent or 2.5 percent through 2004. A 1.5 percent surcharge occurs periodically after calendar year 2005. The highest average contribution rate needed is under employment assumption C, where it rises to 5.24 percent for calendar year 2003. This is well below the 12 percent maximum rate allowable.

Administrative expenses are assumed to be above the current level in fiscal years 2001-2010. Nevertheless, the 0.65 percent of taxable payroll allocated to the Administration Fund is more than sufficient to finance administrative expenses. When the balance in the Administration Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under all three employment assumptions, the balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period.

## V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes which might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and thereby maintain fund solvency.

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<sup>2</sup> The difference between the expected June 30, 2000, balance and the expected indexed \$100 million threshold is quite small, less than \$3.5 million. Consequently, based on the actual amounts which will be calculated later this year, it is entirely possible that there will be no surcharge in calendar year 2001. If that were to happen, we would expect a 2.5 percent surcharge in calendar years 2002 and 2003, and there would likely be a 1.5 percent surcharge in calendar year 2004. Under all the assumptions in this scenario, there is a short-term cash flow problem in fiscal year 2002, with full repayment of the loans in fiscal year 2003. The highest contribution rate is needed under employment assumption C, where it rises to 6.15 percent in calendar year 2003, well below the 12 percent maximum rate allowable.

**Table 1: Employment Assumptions Used in 2000 Report**

| Calendar<br>Year | Average Employment (thousands) |     |     |
|------------------|--------------------------------|-----|-----|
|                  | A                              | B   | C   |
| 1999             | 255                            | 255 | 255 |
| 2000             | 252                            | 249 | 245 |
| 2001             | 249                            | 243 | 236 |
| 2002             | 246                            | 237 | 226 |
| 2003             | 243                            | 231 | 218 |
| 2004             | 240                            | 225 | 209 |
| 2005             | 237                            | 220 | 201 |
| 2006             | 234                            | 215 | 194 |
| 2007             | 231                            | 210 | 186 |
| 2008             | 228                            | 205 | 179 |
| 2009             | 226                            | 200 | 173 |
| 2010             | 223                            | 195 | 166 |

Employment assumptions A and B are based on the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Employment assumption A is the most optimistic of the three assumptions. Employment assumption B is intended to provide a "moderate" assumption. Employment assumption C follows the structure of assumptions A and B, except that it has declines in passenger employment and steeper declines in freight employment than employment assumptions A and B.

Employment assumptions A and B assume passenger employment remains level at 45,000. Non-passenger employment declines at a constant annual rate (1.5 percent for assumption A and 3.0 percent for assumption B). Employment assumption C assumes that passenger employment declines by 500 each year and non-passenger employment declines at a constant rate of 4.5 percent.

**Table 2: Annual Tier I Creditable Limit, Monthly RUI  
Taxable Limit, and Maximum Daily Benefit Rate**

| Calendar<br>Year | Annual<br>Tier I<br>Limit | Monthly<br>RUI<br>Limit | Maximum<br>Daily<br>Benefit<br>Rate [1] |
|------------------|---------------------------|-------------------------|---|
| 1999             | \$72,600                  | \$970                   | \$46                                    |
| 2000             | 76,200                    | 1,005                   | 48                                      |
| 2001             | 80,100                    | 1,050                   | 50                                      |
| 2002             | 83,700                    | 1,085                   | 52                                      |
| 2003             | 87,300                    | 1,125                   | 54                                      |
| 2004             | 90,900                    | 1,160                   | 56                                      |
| 2005             | 94,800                    | 1,205                   | 58                                      |
| 2006             | 98,400                    | 1,240                   | 60                                      |
| 2007             | 102,600                   | 1,285                   | 62                                      |
| 2008             | 107,100                   | 1,335                   | 64                                      |
| 2009             | 111,600                   | 1,380                   | 66                                      |
| 2010             | 116,100                   | 1,430                   | 69                                      |

[1] Effective for registration periods beginning after  
June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A  
(Dollar Amounts in Millions)

| Fiscal Year | Account Contributions<br>[1] | Net Benefit Payments | Other Income and Outgo<br>[2] | Account Cash Balance<br>Year End | Loan Balance<br>Year End<br>[3] | Account Cash Balance Less<br>Loans Due<br>Year End | Calendar Year | Average Employer Contribution Rate<br>(Percent) |
|-------------|------------------------------|----------------------|-------------------------------|----------------------------------|---------------------------------|--|---------------|---|
| 2000        | \$46.4                       | \$78.1               | \$11.7                        | \$80.7                           | \$0.0                           | \$80.7   | 2000          | 0.92  |
| 2001        | 34.0                         | 78.9                 | 7.8                           | 43.7                             | 0.0                             | 43.7   | 2001          | 2.49  |
| 2002        | 77.2                         | 78.4                 | 8.4                           | 50.9                             | 0.0                             | 50.9   | 2002          | 3.51  |
| 2003        | 102.1                        | 76.5                 | 10.4                          | 86.8                             | 0.0                             | 86.8   | 2003          | 3.87  |
| 2004        | 93.8                         | 77.9                 | 13.0                          | 115.7                            | 0.0                             | 115.7  | 2004          | 2.91  |
| 2005        | 61.0                         | 79.7                 | 13.8                          | 110.8                            | 0.0                             | 110.8  | 2005          | 1.88  |
| 2006        | 47.2                         | 81.5                 | 12.6                          | 89.1                             | 0.0                             | 89.1   | 2006          | 2.06  |
| 2007        | 67.4                         | 83.2                 | 11.8                          | 85.0                             | 0.0                             | 85.0   | 2007          | 2.93  |
| 2008        | 92.3                         | 84.9                 | 12.5                          | 104.9                            | 0.0                             | 104.9  | 2008          | 3.31  |
| 2009        | 88.3                         | 86.5                 | 14.9                          | 121.5                            | 0.0                             | 121.5  | 2009          | 2.61  |
| 2010        | 69.5                         | 88.3                 | 15.3                          | 118.0                            | 0.0                             | 118.0  | 2010          | 2.24  |

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B  
(Dollar Amounts in Millions)

| Fiscal<br>Year | Account<br>Contri-<br>butions<br>[1] | Net<br>Benefit<br>Payments | Other Income<br>and Outgo<br>[2] | Account<br>Cash<br>Balance<br>Year End | Loan<br>Balance<br>Year End<br>[3] | Account Cash<br>Balance Less<br>Loans Due<br>Year End | Calendar<br>Year | Average<br>Employer<br>Contribution<br>Rate<br>(Percent) |
|----------------|--------------------------------------|----------------------------|----------------------------------|--|------------------------------------|---|------------------|--|
| 2000           | \$46.4                               | \$78.1                     | \$11.7                           | \$80.7                                 | \$0.0                              | \$80.7  | 2000             | 0.92   |
| 2001           | 33.3                                 | 82.0                       | 7.5                              | 39.6                                   | 0.0                                | 39.6  | 2001             | 2.49   |
| 2002           | 76.1                                 | 84.0                       | 7.3                              | 39.0                                   | 0.0                                | 39.0  | 2002             | 3.59   |
| 2003           | 105.4                                | 85.7                       | 8.5                              | 67.1                                   | 0.0                                | 67.1  | 2003             | 4.27   |
| 2004           | 106.8                                | 85.9                       | 10.9                             | 98.9                                   | 0.0                                | 98.9  | 2004             | 3.63   |
| 2005           | 78.5                                 | 86.9                       | 11.8                             | 102.3                                  | 0.0                                | 102.3   | 2005             | 2.48   |
| 2006           | 58.3                                 | 87.6                       | 10.6                             | 83.6                                   | 0.0                                | 83.6  | 2006             | 2.35   |
| 2007           | 69.8                                 | 88.7                       | 9.4                              | 74.0                                   | 0.0                                | 74.0  | 2007             | 3.14   |
| 2008           | 91.4                                 | 89.5                       | 9.6                              | 85.5                                   | 0.0                                | 85.5  | 2008             | 3.57   |
| 2009           | 93.9                                 | 90.2                       | 10.9                             | 100.0                                  | 0.0                                | 100.0   | 2009             | 3.23   |
| 2010           | 82.4                                 | 91.1                       | 11.3                             | 102.6                                  | 0.0                                | 102.6   | 2010             | 2.85   |

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.



Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C  
(Dollar Amounts in Millions)

| Fiscal Year | Account<br>Contri-<br>butions<br>[1] | Net<br>Benefit<br>Payments | Other Income<br>and Outgo<br>[2] | Account<br>Cash<br>Balance<br>Year End | Loan<br>Balance<br>Year End<br>[3] | Account Cash<br>Balance Less<br>Loans Due<br>Year End | Calendar<br>Year | Average<br>Employer<br>Contribution<br>Rate<br>(Percent) |
|-------------|--------------------------------------|----------------------------|----------------------------------|--|------------------------------------|---|------------------|--|
| 2000        | \$46.3                               | \$78.1                     | \$11.7                           | \$80.6                                 | \$0.0                              | \$80.6  | 2000             | 0.92   |
| 2001        | 32.4                                 | 87.5                       | 7.0                              | 32.6                                   | 0.0                                | 32.6  | 2001             | 2.49   |
| 2002        | 75.2                                 | 93.7                       | 6.0                              | 20.1                                   | 0.0                                | 20.1  | 2002             | 3.73   |
| 2003        | 116.7                                | 99.3                       | 6.2                              | 43.6                                   | 0.0                                | 43.6  | 2003             | 5.24   |
| 2004        | 130.2                                | 98.1                       | 8.6                              | 84.3                                   | 0.0                                | 84.3  | 2004             | 4.65   |
| 2005        | 99.3                                 | 98.0                       | 9.8                              | 95.4                                   | 0.0                                | 95.4  | 2005             | 3.24   |
| 2006        | 70.5                                 | 97.2                       | 8.6                              | 77.3                                   | 0.0                                | 77.3  | 2006             | 2.76   |
| 2007        | 73.2                                 | 96.8                       | 6.9                              | 60.5                                   | 0.0                                | 60.5  | 2007             | 3.46   |
| 2008        | 93.2                                 | 96.4                       | 5.9                              | 63.2                                   | 0.0                                | 63.2  | 2008             | 4.12   |
| 2009        | 103.6                                | 95.6                       | 6.7                              | 77.8                                   | 0.0                                | 77.8  | 2009             | 4.16   |
| 2010        | 96.9                                 | 95.1                       | 7.0                              | 86.6                                   | 0.0                                | 86.6  | 2010             | 3.69   |

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

**Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account  
(Dollar Amounts in Millions)**

| Year | <u>Employment Assumption A</u> |                        | <u>Employment Assumption B</u> |                        | <u>Employment Assumption C</u> |                        |
|------|--------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|------------------------|
|      | 1.5 Percent                    |                        | 1.5 Percent                    |                        | 1.5 Percent                    |                        |
|      | Account<br>Balance             | Surcharge<br>Threshold | Account<br>Balance             | Surcharge<br>Threshold | Account<br>Balance             | Surcharge<br>Threshold |
| 2000 | \$106.6                        | \$110.0                | \$106.5                        | \$109.6                | \$106.2                        | \$109.2                |
| 2001 | 71.6                           | 113.3                  | 67.5                           | 111.6                  | 60.9                           | 109.4                  |
| 2002 | 79.0                           | 116.6                  | 67.4                           | 113.4                  | 49.3                           | 109.7                  |
| 2003 | 114.3                          | 119.2                  | 95.6                           | 114.4                  | 73.2                           | 108.8                  |
| 2004 | 143.1                          | 121.9                  | 126.6                          | 115.5                  | 112.7                          | 108.5                  |
| 2005 | 138.5                          | 124.3                  | 129.8                          | 116.3                  | 123.2                          | 107.6                  |
| 2006 | 117.5                          | 127.2                  | 111.5                          | 117.8                  | 104.8                          | 107.3                  |
| 2007 | 113.8                          | 129.5                  | 102.2                          | 118.7                  | 87.8                           | 106.6                  |
| 2008 | 133.9                          | 132.6                  | 113.5                          | 120.2                  | 90.1                           | 106.1                  |
| 2009 | 150.5                          | 135.9                  | 127.7                          | 121.7                  | 103.9                          | 106.0                  |
| 2010 | 147.7                          | 139.2                  | 130.4                          | 122.8                  | 112.4                          | 105.8                  |

The June 30, 1999 accrual balance was \$118,691,628.59 and the indexed 1.5 percent surcharge threshold was \$108,208,810.

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold (not shown) is indexed from a \$50 million base.